A Comparative Analysis on Venture Capital & Bank Loan to MSME Sectors in Jharkhand - A Case Study of Ranchi District.

A

SYNOPSIS

Submitted in partial fulfillment of the
Requirements for the award of a degree

Of

Doctor of Philosophy

In the
Department of

COMMERCE

Submitted to

YBN UNIVERSITY
RAJAULATU, NAMKUM, RANCHI
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YBN UNIVERSITY
Established by the Act of Government of Jharkhand Act 15, 2017
Gazette Notification No. 505, Dated 17th July 2017
As per Section 2(f) of UGC Act. 1956

Title of research proposal: A Comparative Analysis on Venture Capital & Bank Loan to MSME Sectors in Jharkhand - A Case Study of Ranchi District.

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COMPLIANCE AFFIDAVIT

I, hereby solemnly affirm that the Synopsis/ Thesis titled "**A Comparative Analysis on Venture Capital & Bank Loan to MSME Sectors in Jharkhand - A Case Study of Ranchi District"** in the faculty of **Commerce & Management and the Department of Commerce,** submitted to the YBN University for the award of **Doctor of Philosophy** Degree/Diploma is my original contribution. This study has been conducted under the guidance and supervision of **Dr. RACHANA KUMARI.** It doesn't contravene the rights of others and doesn't contain any libellous or unlawful statements, and all references have been duly acknowledged at the appropriate places. I also declare that my research work is original and natural. This Synopsis has not been submitted before others by me or by any other for the award of any degree in any university.

If found violated, the University can take appropriate action against me as per Act and Statues and UGC norms/regulations in this regard.

Name of Scholar:

Signature: …….

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INTRODUCTION

1.1 Introduction

The success and sustainability of any enterprise largely rely on access to entrepreneurial financing. For entrepreneurs, securing the appropriate funding source is crucial to transform a business concept into a viable enterprise. Today, numerous financing options are available, with institutional loans being the most commonly utilized by Micro, Small, and Medium Enterprises (MSMEs). However, in recent years, especially over the past decade, venture capital has emerged as a key funding avenue for many start-ups such as Flipkart, BYJU's, OYO, and Lenskart, contributing to their rapid growth and prominence.

The outbreak of Covid-19 had a profound impact on global economies, including India. The Indian economy witnessed a consistent drop in GDP growth during the first three quarters of the financial year 2020–21. Venture capital activity was minimal during the first half of that fiscal year, but by the third quarter, investors began to regain interest, particularly in start-ups presenting innovative and forward-thinking business models.

1.2 Micro, Small and Medium Enterprises (MSMEs)

MSMEs play a pivotal role in fostering inclusive growth and economic development. Their greatest advantage lies in their ability to generate employment at a relatively low capital cost. These enterprises display a higher labor intensity compared to larger firms, making them instrumental in job creation and economic resilience.

MSMEs are vital to the industrial framework of the country. In recent times, they have consistently recorded higher growth rates than the broader industrial sector. Despite economic downturns and financial challenges, the sector has showcased impressive adaptability, innovation, and resilience.

Classification of MSMEs is based on their investment and turnover levels. As per Notification No. S.O. 1702(E) dated June 1, 2020, under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, updated definitions were introduced to categorize these

enterprises.

According to the 4th Census of the MSME Sector, there are around 26.1 million operational enterprises employing approximately 59.7 million individuals. The sector contributes nearly 45% to the nation's manufacturing output and accounts for about 40% of total exports.

1.3 Understanding Venture Capital

Venture capital represents a form of long-term funding aimed at high-risk, high-reward industrial projects. Such investments can be introduced at various stages of a project, whether during the initiation phase or at points requiring innovation in product or process development. This type of financing is typically directed toward businesses with uncertain outcomes but promising profitability.

The International Finance Corporation (IFC), Washington, defines venture capital as equity or equity-linked investment in new businesses, innovative ideas, emerging products, processes, or services, all of which offer the potential for high returns. Venture capital can also be injected into enterprises undergoing significant changes or restructuring.

Predominantly used as seed capital, venture capital supports ventures in untested markets or technologies. The concept, which originated in the United States, has been highly successful and is now a global tool for fostering entrepreneurship and innovation.

Many multinational corporations such as Apple, Microsoft, and Intel received venture capital backing during their formative stages. In India, venture capitalists adopt a broad and adaptive strategy. They fund start-ups that are often high-risk and not necessarily rooted in advanced technology. Beyond capital, they also contribute essential expertise in management, marketing, and finance. Initially, the focus was on funding unproven, high-tech innovations. However, over the past two decades, venture capital has played a significant role in financing numerous ventures across various sectors in India. This funding model is increasingly attracting educated entrepreneurs.

Key Characteristics of Venture Capitalists:

a) They seek out ventures with the potential for exceptional growth,
b) They actively provide managerial and operational guidance,
c) Their investment horizon targets medium- to long-term returns, and
d) They do not require collateral for the capital they invest.

Venture capitalists typically invest only when there is a rare synergy between a promising product, a viable market, and a capable management team. Their foundational philosophy is, "No return without risk; the higher the risk, the greater the potential returns."

Categories of Venture Capital Firms

1. **Independent Venture Capital Firms** – These entities operate with diversified ownership and no dominant stakeholder, drawing investment from various sources. They are the most prevalent type.
2. **Captive Venture Capital Firms** – These are created and funded entirely by a parent company, utilizing only internal investment resources.
3. **Semi-Captive Venture Capital Firms** – Although set up by a single entity, a major share of their funding is secured from external investors.

1.4 Bank Loans

Among MSMEs in India, bank loans are the most common form of external financing. It is nearly impossible for a business to function without access to a cash credit or overdraft facility. When evaluating long-term funding options, only term loans from banks stand as direct alternatives to venture capital financing.

2. Review of Literature

1. **Sandesara J. C. (1982)** conducted a study assessing the effectiveness of government assistance programs for small industries. The research focused on financial aid, reservation policies, and incentive mechanisms. It concluded that support was sometimes misallocated—either offered to enterprises that didn't need it urgently or given in excess. Often, government aid replaced private resources, forcing entrepreneurs to redirect

personal funds or adjust their lifestyles to meet investment demands, especially among first-generation business owners.

2. **Nagaraj R. (1985)** analyzed data from the RBI and NSIC surveys conducted in the late 1970s. His study highlighted the rapid growth in registered small-scale units since the mid-1960s. However, sectors like textiles, food processing, leather, and furniture, despite being numerically dominant, contributed modestly to value addition. Wages remained low, and the distribution of these units was uneven. The study found higher profitability and capital efficiency in small-scale enterprises compared to the corporate sector, partly due to lower wage costs and favorable tax policies.
3. **Harry J. Sapienza and Allen C. Amason (1993)** explored the dynamics between lead venture capitalists (VCs) and founding entrepreneurs (Es) in 51 start-ups. Their findings included: (1) greater marketing innovation led to more open VC-E communication, (2) higher technological innovation resulted in increased conflict, and (3) early-stage ventures experienced more frequent VC-E interactions. The impact of technological innovation on openness varied depending on the venture's stage of development.
4. **Murthy R. (1994)** analyzed the role of financial aid in industrial development, focusing on entrepreneurs in Karnataka. The findings revealed a disconnect between financial support and the actual contributions of small-scale industries. Entrepreneurs expressed frustration with bureaucratic procedures, delays in loan approvals, and a lack of effective planning. Additionally, the government's limited role in ensuring access to affordable raw materials forced many businesses to turn to the open market or imports.
5. **Nanjundan S. (1994)**, in his work *"Changing Role of Small-Scale Industry: International Influences, Country Experiences and Lessons for India,"* examined how globalization and technological progress were reshaping the role of small-scale industries. The study compared experiences from countries like the US, Germany, Japan, China, South Korea, and others, extracting lessons for India in adapting its policies and structures to the global economic environment.

The research emphasizes several deficiencies in India's small-scale industry (SSI) statistics, including inconsistencies in definitions, shifting coverage parameters, exclusion of self-employed businesses, and inadequate data on enterprise closures. It underscores

the importance of forging stronger connections between small businesses and academic or research institutions to boost research and innovation. Moreover, it recommends adopting specialized financial models similar to Japan's small business banks, which maintain close relationships with small enterprises. The study also supports enhancing collaborations between large and small enterprises, promoting mutual advancement and sustainability.

6. **Ramaswamy K.V. (1994)** defined India's small-scale sector primarily as the non-household manufacturing segment. This segment notably contributed to employment between 1981 and 1991, especially within non-household and non-factory operations. Although registered SSIs represented a small but growing share of the manufacturing sector, they paid lower wages than their large-scale counterparts. However, labor productivity did not show a proportionate decline in 1987–88. The study challenged the effectiveness of product reservation policies, noting that reserved product manufacturing was not dominant among SSIs and that the output share of reserved items did not increase significantly in sectors with many such products.

7. **Thomas T. T. (1994)** explored how SSI units in Ernakulam District, particularly those in the food products segment, navigated marketing and distribution. The study examined distribution methods, their limitations, and perceived performance. Findings indicated that limited financial capacity hindered effective product promotion, leading to weak brand recognition and customer loyalty. Additionally, a lack of structured marketing strategies resulted in inefficient use of marketing resources.

8. **Bala Subrahmanya M. H. (1995)** reviewed the historical context and impact of product reservation policies for SSIs in India. While these policies aimed to protect and promote small units, they inadvertently discouraged expansion and modernization. By shielding SSIs from competition through benefits and concessions, the policy framework often motivated enterprises to remain small. The study advocated for a shift from protectionist strategies to progressive development policies that emphasize competitiveness, technological adaptation, and growth.

9. **Gompers, Paul A., and Lerner, Joshua Y. (1999)**, in their work "The Venture Capital Cycle," investigated the internal mechanics of the venture capital (VC) ecosystem, focusing on fundraising, investment, and exit processes. They debunked common misconceptions surrounding VC operations using extensive empirical data. Key themes included the serious incentive and information challenges that VCs face, the interconnected nature of VC processes, and the gradual responsiveness of the VC industry to capital supply-demand shifts.

10. **Bhati, S. S. (2002)** examined the contribution and challenges of SSIs in India's economic landscape. The study highlighted that post-independence government policies significantly aided the growth of this sector. Nonetheless, issues such as a rising number of unviable units pointed to inefficiencies in some policy measures. While financial incentives and infrastructure support were well-intentioned, their execution sometimes fell short. Given India's socio-political diversity, continued governmental support for SMEs was deemed critical to ensuring social and economic stability.

11. **Bhavani T. A. (2002)** analyzed the evolving industrial environment and its effects on the competitiveness of small units. The study emphasized the pressures of liberalization and globalization, which introduced intense competition from domestic and international players. To thrive, small businesses needed to improve efficiency, upgrade technologies, reduce costs, and enhance quality. Modernization in mechanization, organizational systems, and IT infrastructure was identified as vital. The study also documented the growth in the number of registered units and highlighted that 233,221 such enterprises received financial support from commercial banks, contributing a net value of Rs. 1,395 crore in 1976–77.

12. **Narayana M. R. (2004)** analyzed the influence of infrastructure quality and business environment on the competitiveness of SSIs in Bangalore. The study pointed to delays in obtaining government permissions, poor transport and utility services, insufficient credit access, and outdated technology as key barriers. Such constraints inflated operational costs and weakened competitive performance. The study concluded that eliminating

procedural delays in financing, licensing, and regulatory approvals could significantly enhance the cost-effectiveness and competitiveness of SSIs.

13. **Avnimelech and Teubal (2004)** presented a comprehensive study on the emergence of Israel's venture capital industry during the 1990s and its integral role in transforming the country's tech sector. The analysis detailed how Israel's defense-focused electronics sector evolved into a dynamic start-up ecosystem similar to Silicon Valley. Their systemic and evolutionary approach emphasized the interplay between VCs, startups, government policies, and global capital markets. By highlighting favorable conditions and policy interventions, the study illustrated how co-evolution among stakeholders spurred VC growth and technological innovation in Israel.

14. **Jean-Etienne de Bettignies and James A. Brander (2006)** offered an in-depth exploration of entrepreneurial financing choices, particularly the trade-offs between bank loans and venture capital. The study emphasized the complexity of decision-making influenced by factors such as the productivity of entrepreneurs and VCs, market structure, and ownership dynamics. It highlighted the "two-sided moral hazard" issue inherent in VC financing, where both parties' efforts critically affect venture outcomes. The research demonstrated that when VCs contribute managerial expertise, venture capital becomes a more attractive and effective financing option. The findings provided strategic insights for entrepreneurs evaluating funding paths.

15. **Saibal G. (2007)** conducted an empirical analysis on a sample of Indian manufacturing firms spanning from 1995 to 2004 to understand the factors influencing the concentration of bank debt within overall corporate debt. The study revealed that bank debt concentration is notably higher in small and medium-sized firms, supporting the theory that debt structures evolve as firms grow. It highlighted the critical role of banking regulations and recommended that policymakers recognize how banks contribute to establishing a firm's reputation. These findings align with the broader theoretical framework that emphasizes banks' value in mitigating information asymmetries, especially within bank-dominant financial systems like India.

16. **Andrew Winton and Vijay Yerramilli (2008),** in their article "Entrepreneurial Finance: Banks versus Venture Capital" published in the Journal of Financial Economics, explored how entrepreneurial firms select between bank loans and venture capital. Banks typically perform less intensive monitoring and face liquidity pressures, while venture capitalists, though better at overseeing ventures, face higher capital costs. The study showed that venture capital is often the preferred option when projects are highly uncertain, have skewed returns, and low liquidation values. In such cases, convertible debt—common in venture capital—provides a more appropriate mechanism. As the cost of capital for venture capitalists declines, firms are more inclined to adopt riskier strategies, increasing the systemic risk in the entrepreneurial ecosystem.

17. **Ahmar Uddin Mohd. (2009)**, in his thesis "Venture Capital in Uttar Pradesh: Problems and Prospects," examined the operational dynamics and challenges of venture capital investments in the state. The study illuminated the potential of venture capital to drive growth in high-risk industrial sectors and provided insights into how venture capital can stimulate regional economic development by supporting innovative and underfunded enterprises.

18. **Annamalai and Deshmukh (2011)** analyzed the Indian venture capital and private equity (VCPE) landscape during 2004–2008, focusing on investment patterns and exit strategies. Reviewing 1,912 deals across 1,503 firms, they found that most investments were made in later stages of a firm's life cycle, often several years after establishment, and typically held for short durations. Exit strategies were influenced by sector, geography, investment stage, and fund type. The authors advocated for increased early-stage funding and encouraged a long-term investment mindset to support sustained growth in India's VCPE sector.

19. **Minola and Giorgino (2011)** investigated factors influencing access to external funding among new technology-based firms (NTBFs) in the UK. Their findings affirmed the pecking order theory (POT), which suggests firms prioritize internal financing, then bank loans, and lastly, venture capital. NTBFs displayed higher capital requirements and

faced more frequent credit rationing than other SMEs. Despite reaching out to venture capitalists more often, their determinants for securing funds were similar to those of other small businesses. The researchers also developed a Bayesian network model to assist high-tech entrepreneurs in making strategic financing decisions.

20. **Kumar P. (2012)** carried out a study using a randomized sample of MSME units to evaluate service delivery in financial assistance schemes. Using variables such as application processing time, procedural requirements, documentation, appraisal time, and official behavior, the study identified inefficiencies and delays in service delivery. Additional criteria like interest rates, security requirements, and repayment norms were also analyzed. Techniques including t-tests and ANOVA were used to evaluate responses. The research found that State Financial Corporations (SFCs) and Small Industrial Development Corporations (SIDCs) were declining in relevance, with doubts raised about their effectiveness despite policy claims of improved industrial promotion.

21. **Mulimani A.A., Belgaum M.S., and Morakar P.R. (2012)** examined the small-scale industrial units in Goa to assess their current challenges and growth opportunities. Relying on secondary data, the study utilized statistical tools, pie charts, and choropleth maps to visualize insights. It identified how resource utilization and geographical factors impacted industrial development. A key finding was the transformation of labor from technical workers to technical facilitators, indicating a shift toward more efficient resource use. However, the Industrial Policy of 2003 was criticized for lacking a regional development focus. The study called for geographically nuanced and practically executable planning strategies to support the growth of SSIs in the state.

22. **Sharma R. (2012)** conducted a case study on both exporting and non-exporting small-scale industrial units in Haryana to assess their challenges and growth potential. The study recommended the creation of appropriate institutional frameworks to improve the economic viability of such enterprises. It was found that sole proprietorship was the dominant ownership structure across both categories. While marketing challenges were common to both, financial constraints were particularly severe among non-exporting

units. In contrast, exporting units struggled with inefficiencies in management, outdated technology, and issues specific to international trade. The research also observed that most non-exporting units were relatively young, with a positive correlation between a unit's age and asset size.

23. **Nagaraju and Kavitha Vani S. D. (2013)** explored how commercial banks in India manage lending to the priority and non-priority sectors, especially focusing on SMEs. The study found that banks face considerable difficulty in assessing repayment capacities and credit risks in the SME sector, primarily due to a lack of specialized knowledge and expertise. This has made SME lending a less attractive option for banks, often perceived as low in profitability despite its categorization under priority sector lending mandates.

24. **Abbas M. and K. Ramesha (2014)** analyzed trends in domestic bank lending to MSMEs before and after the implementation of the MSMED Act of 2006. Using data from the Reserve Bank of India, the study highlighted a significant increase in credit flow to MSMEs in the post-Act period. The improvement was visible in both the total volume of credit and the share of MSME lending within overall bank credit, with consistent patterns seen across public and private sector banks. Despite this progress, access to affordable and timely credit remained a major obstacle for many MSMEs.

25. **Nishanth P. and Zakkariya K. A. (2014)** investigated financing barriers for MSMEs in Kerala's Kozhikode District, relying on primary data from local entrepreneurs. Their findings showed that public sector banks were the dominant source of credit, with minimal engagement from private sector banks. Most enterprises used a mix of personal and borrowed funds, with only a few accessing multiple bank loans. The study suggested that District Industries Centres should offer training on licensing, accounting, and regulatory compliance. Banks were also encouraged to raise awareness about available credit schemes and improve outreach efforts.

26. **Harish N. (2015)** pointed out the continued existence of a significant credit gap in the MSME sector, despite increased financing efforts. Access to adequate and timely funds remained a critical challenge. Although MSMEs showed high levels of financial

inclusion, formal financial systems often failed to meet their evolving needs. The study recommended active government support in the form of trade exhibitions, promotional events, and policy incentives to stimulate growth and improve the sector's contribution to inclusive development and employment generation.

27. **Harsha T. and Hegde Desai P. (2015)** analyzed bank lending patterns to MSMEs, focusing on the differences in approach between public and private institutions. The study categorized lending methods into financial, character-based, and relationship-based. While financial indicators like business performance and plans were vital, for micro enterprises, character-based assessments (notably, management quality) were prioritized. In relationship lending, a unit's track record and loan purpose were the top criteria. These findings underscored the multi-faceted nature of bank decision-making in MSME financing.

28. **Meena K. (2015)** explored financial avenues for MSMEs, with a specific focus on venture capital's potential to fill early-stage funding gaps. The study emphasized that MSMEs frequently face obstacles in securing funding during their formative years. Venture capital was identified as a viable alternative, especially when traditional bank financing was restricted. The research suggested initiatives such as SME-focused exchanges, regulatory relaxations, tax incentives, and fostering angel investor networks through public-private collaboration to enhance venture capital availability for MSMEs.

29. **Thangavel N. and Hariharan V. (2015)** identified structural challenges within the MSME sector, particularly in terms of finance and capacity. Key issues included limited access to credit, inadequate equity in financial structures, technical skill shortages, collateral requirements, and high risk premiums. Although policy interventions exist, they fall short of bridging the sector's massive credit shortfall—estimated at around ₹20 trillion. The study recommended greater bank engagement, as government support alone cannot fulfill the financial demands of the sector.

30. **Viswanatha Reddy C. (2015)** studied regional disparities in MSME credit distribution across Andhra Pradesh using regression analysis and ANOVA. The analysis

showed that Telangana received the highest share of MSME assistance, followed by Coastal Andhra and Rayalaseema. The data suggested an imbalance in how funds were allocated, with underdeveloped regions receiving less support. The study called for focused financial efforts from the Andhra Pradesh State Financial Corporation (APSFC), especially in industrially backward areas, and recommended decentralization of APSFC operations while discouraging multiple financing to a single entrepreneur.

31. **Block, Cumming, and Vismara (2017)** reviewed the effectiveness of both bank and venture capital financing in fostering regional development through entrepreneurial ventures. Their synthesis of entrepreneurial finance literature emphasized the role of institutional settings and proposed future directions for academic inquiry in this field.

32. **Cumming, Grilli, and Murtinu (2017)** examined the comparative performance of government-backed versus privately backed venture capital in Europe using the VICO dataset. They found that firms backed by private independent VCs consistently outperformed those supported solely by public funds in terms of exit outcomes. Syndicates combining both public and private investment sources also showed improved exit performance. The results remained robust across various control variables, including holding duration, investment stage, capital structure, and investor proximity to the investee.

33. **Sabarinathan, Muralidhar, and Shetty (2017)** carried out an exploratory study on venture capital (VC) and private equity (PE) investing in India. Despite considerable growth in the number of funded enterprises and the capital invested, the VC and PE sectors remained relatively under-explored in academic research. The study highlighted how the industry had become a major source of growth capital for innovation-driven and tech-focused enterprises. It also noted the competitive nature of the market, characterized by frequent entries and exits of fund managers, contributing to a better understanding of trends and challenges within India's VC and PE ecosystem.

34. **Brush, Greene, Balachandra, and Davis (2018)** investigated gender disparities in venture capital funding for startups in the United States. Their findings indicated that

women entrepreneurs received a disproportionately small share of VC funding compared to their male counterparts. Although there had been some improvement, a significant gender gap remained. The study presented a framework for future research to further examine and address this inequality in funding access.

35. **Bonini and Capizzi (2019)** analyzed the transformation of early-stage financing, particularly the rise of non-traditional funding channels such as incubators, accelerators, and crowdfunding. They explored how institutional investors were increasingly engaging in the venture capital space, alongside traditional VC firms. While newer financing methods had grown, the authors emphasized the continued relevance of closed-end VC funds due to their strengths in evaluating and supporting startups. The study offered valuable insights into the complexity of the financing environment and potential future developments in entrepreneurial finance.

36. **Lin and Varottil (2020)** explored the influence of legal and organizational structures on venture capital fund operations in China and India. They observed that while limited partnerships were dominant in China, Indian VC funds more commonly operated through private non-charitable trusts. Contrary to prevailing assumptions, Indian trusts functioned effectively and met the needs of both investors and fund managers. The research advocated for locally adapted legal frameworks, emphasizing the role of functional equivalents in promoting vibrant venture capital markets.

37. **Que and Zhang (2021)** examined how industry-specific investor attention impacts firm valuations in the venture capital sector. Using data from Baidu's search engine to construct an industry attention index (ASVI), the study found that heightened investor attention led to increased firm valuations, driven more by hype than by fundamental information. Evidence of valuation reversals and poor investment outcomes confirmed this attention-based pricing effect. However, the presence of experienced venture capitalists and investment syndicates was found to reduce the impact of such overvaluation, highlighting their role in mitigating irrational market behavior.

2.1. Research Gap:

There exists a noticeable scarcity of comparative research evaluating the impact of various financing sources. Specifically, limited studies have explored the distinctions between venture capital and bank loans. This study aims to address this gap by offering fresh insights that are particularly useful for policymakers, financial institutions, and entrepreneurs. The findings are expected to support the development of more effective policies, help MSMEs make informed financial decisions, and enrich academic discourse in the field of entrepreneurial finance. Consequently, the study holds both practical and scholarly relevance, making it timely and significant.

3. Significance of the Study

The choice of financing significantly influences an enterprise's growth, sustainability, and overall performance. With a variety of funding options now available, it is crucial for entrepreneurs to understand which sources best align with their business goals. In India’s evolving financial landscape—especially following the economic disruptions caused by the COVID-19 pandemic—understanding the comparative advantages of different financing methods has become even more essential.

This study aims to evaluate and compare two major sources of external finance for Micro, Small, and Medium Enterprises (MSMEs): bank loans and venture capital. While bank loans are the most commonly used debt financing option for MSMEs, venture capital is increasingly preferred by startups due to its growth-oriented approach.

The research will assess several key aspects, including the procedures involved in obtaining funds, the influence of each financing method on business performance, and the relative profitability and solvency of MSMEs financed through venture capital versus those relying on long-term bank loans. This comparison will provide insights into the effectiveness of each funding model in supporting business growth and financial health.

4. Objectives of the Study:

- To evaluate investment and exit trends in venture capital and private equity within India.
- To investigate financing preferences and patterns among MSMEs.
- To understand how MSMEs perceive bank loans versus venture capital as sources of funding.
- To assess the influence of different financing options on the performance of MSMEs.

5. Hypotheses:

H01: There is no statistically significant relationship between revenue and the type of financing.

H02: No significant relationship exists between EBITDA and the source of finance.

H03: Profit After Tax (PAT) is not significantly influenced by the financing method.

H04: Return on Assets (ROA) does not significantly vary with the source of finance.

H05: Return on Capital Employed (ROCE) shows no significant link to the financing source.

H06: There is no significant correlation between EBITDA percentage and financing source.

H07: PAT percentage is not significantly associated with the source of funds.

H08: The current ratio is unaffected by the type of financing.

H09: Debt-to-equity ratio has no significant connection to the financing source.

H10: The probability of default (as per the Ohlson O-Score) does not significantly differ by funding source.

H11: Altman's Z-score does not show a significant relationship with the source of finance.

6. Research Methodology:

1.10.1 Geographical Scope: The study focuses on Micro, Small, and Medium Enterprises located within the state of Goa.

1.10.2 Study Population: As per data available on the official portal of the Central Ministry of MSMEs, Goa hosts approximately 75,000 MSMEs, encompassing both registered and unregistered entities. These form the population for this study.

1.10.3 Sampling Design: A purposive sampling approach was employed to select the MSMEs. Based on preliminary findings where 31 out of 35 MSMEs had secured external financing, the population proportion was determined to be 88.57%. Using Cochran's formula, a sample size of 270 was calculated to ensure a 99% confidence level and a 5% margin of error. Although 270 questionnaires were distributed, only 162 MSMEs responded. This response rate yielded a 4.89% margin of error at a 95% confidence level. These 162 responses formed the basis for analyzing MSME perspectives on bank loans and venture capital funding. Additionally, financial data from 29 MSMEs over six years (2015–16 to 2020–21) were examined to evaluate the influence of financing sources on their financial outcomes, stability, and risk of bankruptcy.

1.10.4 Data and Sources: This research utilizes both primary and secondary data. Primary data were obtained through structured interviews conducted with MSME representatives and relevant stakeholders. Secondary data were collected from a variety of sources including annual reports of selected enterprises, academic textbooks, reference materials, journals, magazines, online articles, and official websites.

1.10.5 Sample Selection: For the primary data analysis, a cluster sampling technique was

employed to select 162 MSMEs. In contrast, snowball sampling was applied to identify the firms whose financial data were analyzed. The following companies were chosen for the financial statement analysis:

- Attort Legal Consultancy Pvt. Ltd.
- Averina International Resorts Pvt. Ltd.
- Betts India Pvt. Ltd.
- Borkar Packaging Pvt. Ltd.
- Browntape Technologies Pvt. Ltd.
- CG Adhesive Products Ltd.
- Colorcon Asia Pvt. Ltd.
- CommScope India Pvt. Ltd.
- Esteem Industries Pvt. Ltd.
- GKB Hi-Tech Lenses Pvt. Ltd.
- GKB Optolab Pvt. Ltd.
- Goa Brewcrafts Pvt. Ltd.
- Goa Coastal Resorts and Recreation Pvt. Ltd.
- Guala Closures (India) Pvt. Ltd.
- Immo Information Technology Pvt. Ltd.
- Molbio Diagnostics Pvt. Ltd.
- Mondeart Technologies Pvt. Ltd.
- Numadic IOT Pvt. Ltd.
- Reallearning Technologies Pvt. Ltd.
- Ren Lifestyle Solutions Pvt. Ltd.
- Shendure Digitech Pvt. Ltd.
- Tangentia India Technologies Pvt. Ltd.
- Transerve Technologies Pvt. Ltd.
- Tropical Mushrooms (Goa) Pvt. Ltd.
- Western Beverages Pvt. Ltd.
- Zuari Foods and Farms Pvt. Ltd.

- Zuri Hospitality Pvt. Ltd.
- Seynse Technologies Pvt. Ltd.
- Global Energy Pvt. Ltd.

1.10.6 Research Variables:

Dependent Variables: The study employs the following indicators to assess financial performance:

a) Revenue
b) EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization)
c) Profit After Tax (PAT)
d) Return on Assets (ROA)
e) Return on Capital Employed (ROCE)
f) EBITDA %
g) PAT %
h) Current Ratio
i) Debt-Equity Ratio
j) Probability of Default (Ohlson O-Score model)
k) Altman's Z-Score

Independent Variables: Balance sheet components and long-term financing sources were considered as independent variables:

i) Equity Capital
ii) Retained Earnings
iii) Total Non-Current Liabilities
iv) Total Assets
v) Net Working Capital
vi) Source of Long-term Finance

1.10.7 Tools and Techniques: To evaluate the financial data, several financial ratios related to profitability, liquidity, solvency, and efficiency were calculated. Descriptive statistical techniques were employed to assess overall enterprise performance, while predictive models were applied to analyze financial stability and bankruptcy risk.

Analytical methods and tools included:

- Ratio, Trend, and Percentage Analysis
- Growth Index Rate
- Mean, Standard Deviation, and Coefficient of Variation
- Correlation and Regression Analysis
- Altman's Z-Score and Ohlson O-Score
- Visual tools including Graphs and Diagrams
- Generalized Linear Mixed Models (GLMMs)

Tools by Objective:

- Objective 1: Percentage and trend analysis were used to study the investment and exit patterns in venture capital and private equity.
- Objective 2: A categorical coding system and percentage-based analysis were applied to understand MSME financial preferences.
- Objective 3: Likert scale responses were analyzed using mean and standard deviation to assess MSMEs' perceptions of venture capital vs. bank loans.
- Objective 4: Ratio analysis, Altman's Z-Score, and Ohlson's default probability were calculated using WPS spreadsheets. Hypotheses (H01 to H11) were tested using GLMMs via SPSS.

7. Tentative Chapter:

Chapter 1: Introduction and Conceptual Framework Presents an overview of the study, including its background, aims, and research framework.

Chapter 2: Overview of Venture Capital Provides definitions, characteristics, and major stakeholders in the venture capital industry to lay a foundational understanding.

Chapter 3: Evolution of Venture Capital in India Analyzes the historical development, policy landscape, and key milestones that have influenced the venture capital ecosystem in India.

Chapter 4: Financial Preferences of MSMEs Explores the financial needs and preferences of MSMEs, particularly their choice between venture capital and other financing avenues.

Chapter 5: MSME Perceptions of Venture Capital and Bank Loans Examines how MSMEs perceive different financing options, highlighting their attitudes and experiences with bank loans and venture capital.

Chapter 6: Impact Analysis of Financing Sources on MSMEs Evaluates how venture capital and bank loans affect MSME growth, innovation, and financial outcomes.

Chapter 7: Summary, Suggestions, and Conclusion Summarizes key findings, provides actionable recommendations, and concludes with insights on financing strategies for MSMEs.

8. References

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